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Chain Store Age EXECUTIVE

March 1988

with Shopping Center Age

The newsmagazine for retail management

JAPAN: LARGE CONTRADICTIONS

TWENTY-FIVE DOLLARS AS EARLY AS

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JAPAN: A LAND OF CONTRADICTIONS

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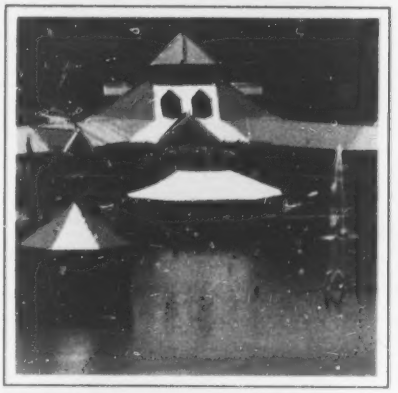

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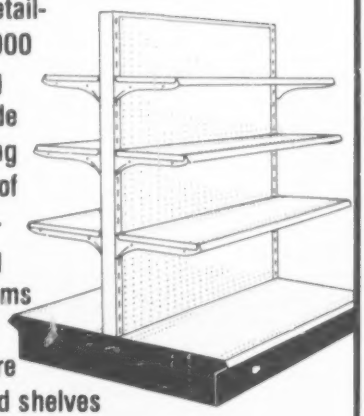

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JAPAN:
LAND OF CONTRADICTIONS

Welcome to Japan. It's a land of great beauty, of rapid economic growth, and, most of all, of dramatic contradictions.

At an annual Sumo wrestling tournament, well-dressed executives come to cheer for their favorite competitors in this ancient sport.

In one of Tokyo's busiest districts, a hotel destroyed by fire five years ago stands vacant amid some of the country's most expensive real estate. Japanese businessmen are too superstitious to want to build on this site. They fear that bad luck would follow them.

On a lighter note, the most popular attraction at one of Tokyo's most fashionable shopping centers is the assortment of fortune-telling booths housed on the top floor. Fortune telling is currently all the rage.

Contradictions indeed show up elsewhere in the retail industry. ›

SEIBU'S SEED: A REFLECTION OF MORE DIVERSIFIED CUSTOMER TASTES

Most Japanese retailers are far ahead of their American counterparts when it comes to the designs of their stores. They are far, far behind when it comes to implementing operating controls and store brand product development.

"We are just emerging from the stage where U.S. chain stores were in the 1930s," says Shinuchi Atsumi, chief management consultant of the Japan Retailing Center.

He adds that in the next 50 years, "We hope to accomplish what U.S. retailers will have by then taken 100 years to accomplish; we plan to have caught up with those chains and perhaps even surpassed them."

Atsumi is considered one of the most influential figures in Japanese retailing. He personally worked with the founders of Japan's largest chain stores in the start-up phase of their businesses. He continues to consult with them and with others on the implementation of modern-day chain retailing systems. (He is also founder of the Pegasus Club, an organization whose membership is comprised of most of the country's top retailers.)

"While we have already overtaken American retailers in terms of presentation, we have not yet learned other things, such as labor scheduling, for example," he points out, causing labor costs to remain extremely high.

He adds, "We are also behind U.S. retailers when it comes to the merchandise we sell."

Up until the early part of the 1980s, Japan's retailers relied almost exclusively on manufacturers and their input to decide which products would be sold in the stores. This was a strategy that worked, especially since "after World War II, we were suffering from the devastations of the war. People were so hungry for goods that whatever manufacturers placed in a store sold very well," recalls Satoru Urakabe, an executive director of Tokyu Hands *(see story this issue)*. "What we are seeing today, however, is that products don't sell well unless they are geared to please specific customer tastes."

Similarly, Takuya Okada, chairman of Jusco (Japan's third largest retailer with superstores accounting for

Superstores: Something just a little bit different

The term "superstore" refers to many of the units operated by some of Japan's largest retail companies, including Daiei, Seiyu, Ito-Yokado, Jusco and Uny. It's a word familiar to American retailers. But in Japan it means something quite different.

The superstores in general have the following characteristics: food, clothing and a miscellaneous category each account for between 30% and 40% of total store sales; a typical superstore looks to pull customers from a trading area of 100,000 people; and the stores specialize in offering what its operators term "everyday goods," offered at prices considerably less than those of similar products sold at the department stores.

When it comes to grocery sales, superstores maintain a gross margin of between 20% and 21%, according to Shunichi Atsumi, chief management consultant for the Japan Retailing Center. For apparel, the margins rise to between 24% to 28% (compared to apparel specialty store margins of between 35% and 38%). Electronics sales generate margins of 18%, or 4% less than those of electronics specialty stores. However, in home furnishings and housewares the margins are comparable to those of stores which specialize in these categories, says Atsumi, at about 30% and between 24% and 26% respectively. Margins for detergents and toiletries, at 10%, are also comparable to those of other types of stores selling such products.

The superstores may be an endangered species, though, he points out, because of the large customer count they need in order to survive. "As more styles of Japanese chain stores emerge, it will be harder for these stores to stay in business."

the lion's share of its sales), observes, "Since the income of average Japanese people has risen a great deal, there is no longer such a demand for mass products. Instead, more stores are looking for new forms of operation."

He adds, "At our company we are working on such diversified forms as specialty stores and storeless operations, as well as diversifying into such areas as restaurants, leisure-time oriented businesses and international businesses." (Storeless operations refer to door-to-door selling and catalog shopping.)

Jusco's diversification activities are typical of those of many other Japanese retailers. However, at the same time, these companies are trying to attract customers through intensifying their development of store brand products.

Indicative of this trend is the large amount of floor space devoted to showcasing store brand products at the superstores operated by Daiei, Japan's largest retailer. Prominent among these brands are the products created expressly for the Daily Use Department.

"Our policy is to collect various goods into this area that customers use on a daily basis," explains Akira Yakima, a public relations spokesman for the company. All products sold in this department are created and designed by Daiei staff "and then manufacturers make to order exactly what we want. (Other store brands found at the stores include generic products in the food area.)

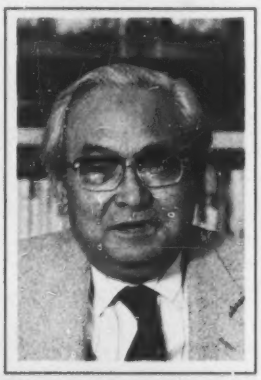
According to Atsumi, in some merchandise categories certain retailers are already realizing over 50% of their gross profits from store brands developed since 1983.

To create such brands retailers aren't relying simply on in-house expertise. "Now the initiative in deciding what will be sold in the stores is going from the buyer to the consumer," adds Reiko Takayama, secretary-general of the Tokyo-based Shop System Study Society which, as an offshoot of the Ministry of Industry, works with retailers in developing store systems.

Retailers are also paying considerably more attention to customer needs in a variety of other ways. For example, Isao Nakauchi, Daiei's chairman, proclaims, "One of my chief aims is the humanization of industrial space. My philosophy is that in order to meet the needs of the customer, we must be very careful to adjust the hours of operation, the places where our stores are located and the merchandise mix we carry to the needs of the customers in the surrounding market."

Programs are under way at Daiei to implement this philosophy; some sort of restructuring or repositioning program seems to be under way at almost all other major companies as well. For example, at Seiyu Ltd.: "This year we are celebrating our 25th anniversary and we have a program called Action 25 which involves our company reconsidering what changes are necessary for us to succeed in the future," says Etsuji Kobayashi, a public relations spokesman.

"Since the environments where we operate our stores are changing, we



CONSULTANTS: REIKO TAKAYAMA, SHOP SYSTEM SOCIETY; SHUNICHI ATSUMI, JAPAN RETAILING CENTER

INDUSTRY PIONEERS: ISAO NAKAUCHI, CHAIRMAN, DAIEI; TAKUYA OKADA, CHAIRMAN, JUSCO

Management training: Who will run the stores?

In the United States a hot topic of conversation is how to deal with a shrinking labor pool. In Japan, the problem isn't a lack of labor; it is a lack of executives schooled in the specific disciplines needed to manage multi-unit retail companies.

However, as far back as 1967, Daiei, Ito-Yokado and Jusco started to deal with this problem. They recruited a large number of newly-graduated university students, recalls Shunichi Atsumi, chief management consultant of the Japan Retailing Center. Then they put 10% of all the costs involved in operating their stores into the training of these people. As a result, these companies have a generation of retail specialists already in place, he points out.

Other companies have since joined them in going aggressively after this retail talent. In 1984 alone (the latest year for which figures are available), Jusco recruited 463 college graduates, Daiei, 450, and Ito-Yokado, 187, while Seiyu recruited 316, according to the Japan Retailing Center.

Of all new employees hired by Japan's chain stores that year, 29.6% were college graduates; 70.2% were high school graduates.

While all these recruitment efforts are definitely a move in the right direction, Atsumi maintains that they still aren't enough. For example, most companies have job qualification examinations. Only between 10% and 25% of applicants successfully pass these tests and move on.

If Japan's chain store operators are going to meet their long-term growth goals, "the challenge still is to get a hold of efficient people, to train them properly and then to turn them into specialists in different areas of retailing."

STORE BRAND DEVELOPMENT: LISTENING TO THE CUSTOMERS

all must make some slight changes in the way our companies operate and are structured to respond to these changes," agrees Toshio Nishikawa, president of Uny, a major operator of superstores.

One of the major changes retailers are being forced to face is a halt in the growth of consumer spending. Last year it is estimated to have risen by a scant 2%. Given a 1% rate of inflation, this means a 1% increase in real terms.

"This makes it very difficult for retailers to increase sales unless they lower prices," Atsumi points out. However, instead of necessarily pursuing this strategy (and having to cope with the resulting gross margin pressures that U.S. retailers are being plagued with), many Japanese retailers are following the lead of companies such as Sears, Roebuck and J. C. Penney (two companies idolized by many Japanese firms). They are starting to offer a host of services, including financial, insurance and even travel agencies. (Japan's major retail company groups are also launching other businesses outside of this field.)

On the positive side, the laws which have regulated how many larger-sized stores can be built are starting to be removed in many localities. This means that in the future major companies will be able to add more quickly to store count.

At the same time, the percentage of Japanese consumers owning automobiles, while still below U.S. levels, is increasing quickly and is projected to reach 71% by next year. As a consequence, Atsumi foresees rapid growth in shopping center development—something that has proceeded fairly slowly up to now.

"Because shopping centers have not been developed here to the same degree as in the United States, there isn't yet the situation where Daiei, for example, would have threatening competition located almost right next to it," points out Takayama.

He adds, "If there is not so much competition, then stores aren't quite so quick to make major improvements. It's not like in the States where Penney, Sears and Bloomingdale's, for instance, all have to compete with each other in the same center."

"American companies have survived hard competition and they have survived the deadly recession," adds Atsumi. "Japanese retailers haven't yet had to overcome such challenges." ■

—Jacquelyn Bivins

Japan's largest retailers

(according to sales volume for fiscal year ended February 1987)

	Sales (in billions)[1]
1. Daiei	$14.2
2. Saison Group	13.4
3. Ito Yokado	10.0
4. Jusco	8.0
5. Takashimaya	6.6
6. Nichii	5.7
7. Daimaru	5.0
8. Mitsukoshi	4.2
9. Uny	3.9
10. Tokyu Group	3.8
11. Matsuzakaya	3.1
12. Marui	2.8
13. Isetan	2.5
14. Nagasakiya	2.4
15. Hankyu	2.3
16. Izumiya	2.2
17. Kotobukiya	2.1
18. Chujitsuya	2.1
19. Kintetsu	1.8
20. Kobe Kobe Coop	1.8

[1]$1 = Y140

Source: Annual reports and Japan Retailing Center

What's 'in' in Japan?: Some of the latest fads and trends

Along with a passion for baseball, American rock music and Disneyland, the Japanese love fads. Current ones (or at least those current approximately a month ago) include:

- Vacation trips to hot springs; and if there isn't time to make the trek, the "essence" of the water from these spas is bottled and is available in the country's trendiest stores.
- Quality stationery products, including the most expensive and comprehensive of leather accessories, led in popularity by personal appointment books. (Filofax, for one, has discovered a fertile market there.)
- Food products with a special twist: milk boiled at a lower-than-normal temperature, for example, or those offering a lower salt and/or sugar content; Products offering "more" of something are also extremely popular. Customers will pay more for these products, according to supermarket executives, even if they don't quite understand exactly what the benefits are.
- Home furnishings in general, with particular emphasis on any products consumers perceive as making their homes more pleasant to live in. (Included in this category are new gadgets such as an automatic bread baker and an appliance that makes it easy to boil water and then maintain it at that temperature for a long period of time.)

POOR RECEPTION PLAGUES TELEVISION SHOPPING

SHOP-AT-HOME NETWORKS HAVE TROUBLE TURNING VIEWERS INTO BUYERS

Only three years after Florida-based Home Shopping Network's ground-breaking nationwide cablecast, TV shopping is facing a mid-life crisis. Viewership for shop-at-home formats hit the doldrums last summer. Even worse, home television shopping programs are not turning their viewers into shoppers. As for those who are buying, they are purchasing fewer products. It may prove impossible to convert the holdouts.

These are some of the sober conclusions of a nationwide Leo J. Shapiro & Associates telephone survey of 1,061 households. The Chicago-based market researcher conducted monthly samplings between April and November 1987.

The shop-at-home via TV services, touted initially by some observers as retail's future incarnate, suffered a shakeout tantamount to an earthquake last year. At best count, 15 television shopping programs, including at least two with high-powered talent, went off the air in 1987.

Co-hosts Alex Trebeck of "Jeopardy" fame and actress Meredith MacRae jumped ship from ValueTelevision, a pricey joint venture among heavy-hitters Lorimar Telepictures, cataloger Hanover House and Fox Television.

Even the ever-effervescent diet and exercise guru Richard Simmons, who replaced the two, could not breathe life into the shop-at-home show, and ValueTelevision was canceled mid-year. Shop Television Network, hosted by 50's teen heartthrob Pat Boone, came and went with equally little notice. Home Shopping Network's try at a broadcast game show flopped, too.

But, according to the Shapiro & Associates study, even last year's shakeout may not leave enough business for the survivors. In addition to Home Shopping Network, the major players still on the scene include Minneapolis-based Cable Value Network (CVN) and West Chester, Pa.-headquartered QVC (Quality, Value, Convenience) Network.

The audience for home shopping television shows is shrinking, says the Shapiro poll. Since last July, when viewership for TV shop-at-home programs peaked at 38% of all households, there has been a steady decline in viewers. By November, the number of families reporting that they had watched one of the TV shopping shows within the week before fell to 26%.

TV shopping: Lots of watchers, few shoppers

	% watching	% buying
Income		
Over $30,000	35%	18%
$20,000-$30,000	30	16
Under $20,000	32	16
Occupation		
Professional	28%	15%
Technical	30	15
Manager	39	14
Clerical	39	15
Sales	29	19
Craftsman	33	13
Service Worker	29	17
Military	18	9
Retired	29	12

Source: Leo J. Shapiro & Associates

Time spent watching shop-at-home television is dipping, too. Viewing hours hit their peak last July, when the average family reported watching 3.3 hours of TV shopping programming in the previous week. By November, average viewership had fallen 12% to only 2.9 hours per week.

The number of viewers who actually become customers, says Leo Shapiro & Associates president George Rosenbaum, is shrinking as well. "The belief that if you could get audience that you would eventually be rewarded with buyers is no longer justified," he says.

In the final month of the nationwide poll, for example, the number of first-time television shoppers dipped to about 5% of all households. This number has decreased steadily since last May, when it stood at a healthy 9%.

"There is no growth in the number of people who are converting from being a member of the viewing audience to becoming a member of the buying audience," the market researcher says.

"To live off of this small number of buyers," he says, "shopping programs are going to try to sell them more—and more profitable—merchandise and try to get more dollars from them."

The average purchase from shop-at-home television shows last year was about $48, according to the Shapiro study.

Merchandise purchased via TV shopping networks in more recent months, however, has less variety than earlier measurements in the survey period.

A year ago, for example, the survey

STILL ON THE SCENE: MINNEAPOLIS-BASED CABLE VALUE NETWORK IS A MAJOR PLAYER LEFT IN THE GAME

families named 24 different merchandise categories that they recently had bought from home shopping programs. The items customers named ranged from tackle boxes and socket wrenches to gold and silver and the seemingly ubiquitous cubic zirconium jewelry.

By November, however, recent home shopping customers cited only 11 merchandise categories. Most named were watches and jewelry.

"As they [the home shopping networks] narrow their assortments," Rosenbaum says, "there are fewer buying opportunities and fewer buyers."

Almost half of home shopping viewers, according to Rosenbaum, never buy a single product from any of the networks. They are the electronic equivalent of window shoppers. Rosenbaum calls them "wasted audience."

"The big challenge for the industry is to survive off of the small number of buyers that is not growing in number," says the Shapiro & Associates president.

"The opportunity for the industry," he adds, "is to make money off of the wasted audience, and the current offerings show no promise of solving that problem."

Part of the trouble, Rosenbaum notes, is that the biggest share of wasted audience belongs primarily to lower income families, who simply cannot afford to give in to home shopping's fevered "buy it in the next 60 seconds or miss it forever" sales pitch.

"It's very hard to get a discretionary 60 bucks in five minutes," observes Rosenbaum. "Many wasted audience viewers have to get their paycheck first and then see how big the electric bill is going to be before they can buy," he says.

While almost one-third of all households with annual incomes under $20,000 reports watching shop-at-home television, only 1 in 10 actually ends up buying, according to the study. This compares with the nearly 1 in 5 households with incomes above $30,000 that reports buying *(see accompanying chart)*.

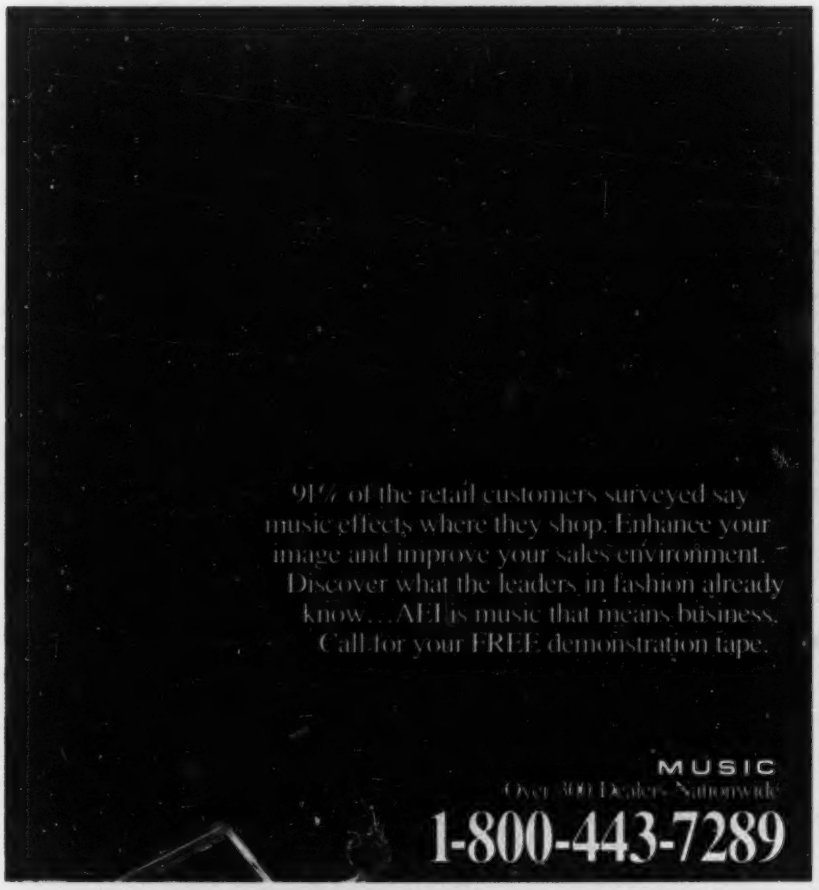
Sixty-one percent of clerical workers who watch shop-at-home television programs have never bought from one of the shows, according to the Shapiro study.

This compares with the nearly 54% of professional viewers who have shopped the programs. Similarly, 50% of technical workers are paying customers.

How can TV shopping networks turn their electronic window shoppers into paying customers? Rosenbaum offers two suggestions for the industry.

"The solution to selling the wasted audience may be to give them a planned purchase, something that they need and plan to buy anyway, like insurance," he says. "Or to give them a medium of buying—such as a catalog—that is not as impulsive and surprising as what they see on television."

The irony in Rosenbaum's solution to TV shopping's midlife crisis is that it sounds very much like something even more familiar—something called Sears, Roebuck. ■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